

Message Text

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SUBJECT: OCCIDENTAL PETROLEUM PROJECT IN ODESSA

1. INTRODUCTION AND SUMMARY. THIS REPORT IS A FOLLOW-UP TO ONE PREPARED AFTER THE FIRST VISIT OF A KIEV ADVANCE PARTY OFFICER TO THE PROJECT IN NOVEMBER, 1976. AT THE TIME OF THE MOST RECENT VISIT IN EARLY APRIL, 1977, THE PROBLEMS ENCOUNTERED IN COMPLETING THE CONSTRUCTION PROJECT WERE MORE CLEARLY DEFINED. THE AMERICAN PROJECT MANAGER ESTIMATED THE COMPLETION DATE MIGHT WELL SLIP FROM THE ORIGINAL DATE OF DECEMBER 1978 TO SOMETIME IN 1982. HE ATTRIBUTED THE DELAY TO A LACK OF SKILL AND ORGANIZATION ON THE PART OF THE SOVIET WORKERS, A FAILURE TO FOLLOW INSTRUCTIONS AND TO ASSIST AND USE AMERICAN PERSONNEL PRESENT, A BREAKDOWN IN PLANNING AND SUPERVISION ON THE PART OF THE SOVIET PROJECT MANAGER AND HIS STAFF.

2. THE REPORTING OFFICER VISITED THE OCCIDENTAL PETROLEUM PROJECT IN ODESSA, ACCOMPANIED BY TWO OTHER EMBASSY OFFICERS, FROM APRIL 4 TO 10, 1977. DURING THAT PERIOD THEY SPOKE WITH AMERICAN PROJECT PERSONNEL AND VISITED THE OFFICE AND CONSTRUCTION SITES. MR.
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EDWARD C. DICK, THE AMERICAN PROJECT MANAGER OF ADTEK, INC., A SUBSIDIARY OF OCCIDENTAL PETROLEUM, EXPLAINED THERE ARE THREE INDIVIDUAL PROJECTS GOING ON AT ONE TIME IN THE ODESSA WHICH WILL CULMINATE IN A LARGE COMPLEX FOR THE PRODUCTION OF FERTILIZER. MR. DICK'S PROJECT, THE BUILDING OF STORAGE FACILITIES FOR LIQUID AMMONIA AND SUPERPHOSPHORIC ACID, IS THE ONLY

WHOLLY OCCIDENTAL - SOVIET ENDEAVOR IN ODESSA. ANOTHER CONTRACT, TO BUILD AN AMMONIA PIPELINE FROM TOGLIATTI TO ODESSA, IS A JOINT VENTURE BETWEEN OCCIDENTAL AND A FRENCH COMPANY. A GERMAN COMPANY HAS THE CONTRACT FOR CONSTRUCTION OF A PLANT TO MAKE FERTILIZER FROM THE AMMONIA AND THE SUPERPHOSPHORIC ACID. HOWEVER, ALL THREE GROUPS HAVE ADJACENT OFFICES AND WORK CLOSELY TOGETHER.

3. MR. DICK STATED THAT HIS PROJECT, AND THOSE OF THE PIPELINE AND FERTILIZER PLANT AS WELL, IS BEING CONSTRUCTED UNDER A CONTRACT WHICH CALLS FOR THE DESIGN AND MATERIALS TO BE PURCHASED BY THE SOVIET GOVERNMENT, THE SOVIETS TO DO THE CONSTRUCTION, AND THE AMERICAN STAFF TO OPERATE AS INSPECTION PERSONNEL TO INSURE THE DESIGN IS FOLLOWED. THE SOVIETS ALSO PAY 155 DOLLARS PER DAY TO OCCIDENTAL TO COVER THE COST OF MAINTAINING THE INSPECTION TEAM IN ODESSA PLUS AN ADDITIONAL 90 RUBLES PER WEEK TO EACH EMPLOYEE TO APPLY AGAINST HOUSING COSTS. THE HOUSING PAYMENT IS IN LIEU OF APARTMENTS, WHICH WERE PROMISED TO THE FOREIGNERS WHEN THEY ARRIVED IN THE SPRING OF 1976 BUT HAVE FAILED TO MATERIALIZE. THE AMERICAN PERSONNEL, NOW LIVING IN HOTELS, ARE IN NO HURRY TO MOVE TO THE APARTMENTS, WHICH THEY HAVE NEVER SEEN AND ARE CONSIDERABLY REMOVED FROM DOWNTOWN ODESSA, FROM THE HOTELS WHERE THEY HAVE SUITES OR REASONABLY LARGE ROOMS AND HAVE THE HOTEL FACILITIES AND A CENTRAL LOCATION.

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4. MR. DICK IS FRANKLY CONCERNED ABOUT PROGRESS IN HIS PART OF THE OVERALL PROJECT. HE REITERATED THAT THE COMBINATION OF DELAYS ON HIS PROJECT ALONE WOULD PREVENT ITS COMPLETION BEFORE 1982. THE OTHER PARTS OF THE COMPLEX WERE ESTIMATED BY THEIR FOREIGN PROJECT MANAGERS TO BE AT LEAST A YEAR BEHIND SCHEDULE, BUT SINCE THE STORAGE FACILITY IS THE LARGEST AND MOST SIGNIFICANT PORTION OF THE ENTIRE PROJECT, A DELAY IN ITS COMPLETION IN EFFECT MEANS THE OTHER FACILITIES ARE DELAYED AT LEAST THE SAME LENGTH OF TIME. MR. DICK CITED SEVERAL EXAMPLES OF SIGNIFICANT DELAYS. HE SAID THAT ALTHOUGH THE SOVIETS HAD BEEN ON THE JOB NEARLY A YEAR, NOT ONE TANK HAD BEEN COMPLETED. THE AVERAGE CONSTRUCTION TIME IN THE WEST HE ESTIMATED AT BETWEEN FOUR TO SIX WEEKS PER TANK. HE ESTIMATED THE RADIOGRAPHY OF WELDS TO CHECK QUALITY WAS NEARLY A YEAR BEHIND SCHEDULE, AND IF DEFECTIVE WELDS WERE FOUND AND HAD TO BE REPLACED, IT WOULD LENGTHEN THE DELAY

EVEN FURTHER.

5. MR. DICK FOUND SEVERAL MAJOR CAUSES OF THE DELAYS. PERHAPS THE MOST SIGNIFICANT WAS THE NUMBER AND QUALITY OF THE SOVIET MANAGEMENT PERSONNEL. MR. SKOROSHENKO, THE SOVIET PROJECT MANAGER, HAS THE RESPONSIBILITY FOR ALL THREE PROJECTS IN THE CONSTRUCTION OF THE COMPLEX BUT HIS SUBORDINATES APPEARED TO HAVE NEITHER THE KNOWLEDGE OR AUTHORITY TO MAKE DECISIONS ON THEIR OWN, SO SKOROSHENKO HAS TO MAKE VIRTUALLY ALL DECISIONS, EVEN THE MOST MINOR. IF HE IS INVOLVED IN SOMETHING ELSE, ALL WORK STOPS UNTIL HE IS AVAILABLE TO MAKE THE DECISION THAT WILL ALLOW WORK TO RESUME. HE IS SO BUSY SORTING OUT IMMEDIATE PROBLEMS THAT HE HAS LITTLE TIME FOR SUPERVISION OR PLANNING AHEAD TO AVOID FUTURE PROBLEMS.

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6. THE SUPERVISORY FAILURE IS REFLECTED IN A LACK OF ORGANIZATION. ALTHOUGH ALL THE MATERIALS AND EQUIPMENT WERE TAKEN OUT OF THEIR CRATES FOR INVENTORY UPON ARRIVAL, MOST OF THE EQUIPMENT HAS BEEN LEFT OUT IN THE OPEN AND UNMAINTAINED. IN ADDITION, THE COMPONENT PARTS OF EACH OF THE TANKS, WHICH DICK SAID ARE NUMBERED AND GO TOGETHER LIKE A BIG ERECTOR SET, HAD NEVER BEEN ASSEMBLED AND LAID OUT, PRACTICALLY REQUIRING A SEARCH EVERY TIME ANOTHER PIECE OF EQUIPMENT IS NEEDED IN THE ASSEMBLY PROCESS.

7. LACK OF MAINTENANCE IS SHOWN IN SIMPLE, BUT IMPORTANT WAYS. DICK SAID A LARGE NUMBER OF EXPENSIVE, HIGH QUALITY PUMPS ARE NEEDED TO MOVE THE LIQUID AMMONIA WITHIN THE STORAGE AREA AND THAT PRIOR TO INSTALLATION AND OPERATION THE PUMP SHAFTS MUST BE ROTATED MONTHLY TO PREVENT THE SHAFTS FROM FREEZING IN ONE POSITION. DESPITE NUMEROUS ORAL AND WRITTEN REQUESTS, THE SHAFTS HAVE NEVER BEEN TURNED AND DICK SPECULATED THAT BY THE TIME THE FACILITY IS COMPLETED, 75 TO 80 PERCENT OF THE PUMPS WILL BE UNWORKABLE. HE STATED FAILURE TO MAINTAIN THE EQUIPMENT VOIDS THE WARRANTY AND THE SOVIETS WILL HAVE TO BUY NEW PUMPS SEVERAL YEARS FROM NOW TO REPLACE THE ONES WHICH WILL NOT OPERATE.

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8. DICK STATED THAT HE AND HIS CREW ARE DISAPPOINTED IN THE PROGRESS BUT EVEN MORE DISAPPOINTED THAT THE SOVIETS DO NOT TAKE ADVANTAGE OF THE GREATEST SOURCE OF EXPERTISE AND EXPERIENCE AVAILABLE - HE AND HIS AMERICAN CREW. HE SAID THE CONTRACT REQUIRES THE AMERICANS TO BE AVAILABLE FOR INSPECTION PURPOSES AND NOT TO ADVISE THE SOVIETS OR DO ANY WORK THEMSELVES, BUT CONTRARY TO HIS EXPERIENCE WHERE THE SOVIETS HAVE EXPLOITED EVERY LOOPHOLE AND AMBIGIOUS PORTION OF THE CONTRACT TO THEIR BENEFIT, THE SOVIETS HAVE NEVER ASKED FOR HIS ASSISTANCE OR TAKEN ADVANTAGE OF IT WHEN IT IS OFFERED. DICK POINTED OUT THAT HIS MEN ARE PROFESSIONALS, WOULD LIKE TO SEE A GOOD JOB DONE, ARE SOMEWHAT BORED BY SITTING AROUND WATCHING WHEN THEY ARE ACCUSTOMED TO DOING THE WORK THEMSELVES, AND WOULD BE IN THE MIDDLE OF THE ACTIVITY IF THE SOVIETS DID NOT APPEAR TO TRY TO EXCLUDE THE CREW FROM CONSTRUCTION ACTIVITIES.

9. THE LACK OF CONCERN HAS BEEN INDICATED BY THE FACT THAT ABOUT HALF THE TIME, EITHER THE DRIVERS TO TAKE THE AMERICANS TO THE SITE OR THE INTERPRETERS, OR BOTH, ARE NOT AVAILABLE. DICK ACKNOWLEDGED SITTING AROUND
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ALL DAY WAITING FOR TRANSPORTATION DOES NOT IMPROVE THE MORALE OF HIS CREW BUT HE SCOFFED AT THE IDEA THAT KEEPING HIS CREW OFF THE SITE WOULD ALLOW THE SOVIETS TO COVER UP SOME MISTAKE; HE INDICATED THAT SINCE THE WORK WAS GOING SO SLOWLY AND THAT SINCE HE AND HIS CREW

KNEW NOT ONLY WHAT WAS SUPPOSED TO BE DONE BUT WHAT THE SOVIETS WERE DOING, WHILE THE SOVIETS KNEW NEITHER, THAT THERE WOULD BE LITTLE OPPORTUNITY TO TAKE ADVANTAGE OF THE ABSENCE OF THE AMERICAN CREW.

10. DICK BELIEVED THAT A MAJOR FACTOR IN DELIBERATELY FAILING TO USE THE CAPABILITIES OF THE FOREIGN INSPECTORS WAS A FALSE SENSE OF PRIDE WHICH COULD NOT COVER UP THE LACK OF WORKER TRAINING AND SKILLS. AS AN EXAMPLE, HE SAID THE SOVIET ORDERED AUTOMATIC WELDING EQUIPMENT TO WELD THE RINGS OF THE TANK TOGETHER AFTER THEY WERE ASSEMBLED. ONE OF THE AMERICANS ASKED THE SOVIET WORKERS IF THEY NEEDED ANY ASSISTANCE IN OPERATING AND ADJUSTING THE EQUIPMENT. HE WAS REBUFFED AND DURING THE FOLLOWING WEEK THE SOVIETS ATTEMPTED TO OPERATE THE EQUIPMENT WITH NO SUCCESS. IT WAS ONLY AFTER THE AMERICANS OBSERVED THE SOVIET WORKERS FOLLOWING BEHIND THE WELDER, TAKING OUT THE FAULTY WELD AS FAST AS IT WAS BEING LAID, THAT THE SOVIET WORKERS ALLOWED THE AMERICANS TO ADVISE THEM HOW TO ADJUST THE EQUIPMENT. A SIMILAR EXAMPLE OCCURRED WHEN ONE OF THE WORKERS ADJUSTED AN ARC WELDER SO THAT IT WAS CUTTING RATHER THAN WELDING. AFTER THE AMERICANS TOLD THE SUPERVISOR THAT THE WORKER'S ACTIVITIES WERE WEAKENING THE STEEL PLATE AND IF HE CONTINUED THE PLATE WOULD HAVE TO BE REPLACED, WITH THE SOVIETS HAVING TO PURCHASE A NEW PLATE AND HAVE IT SHIPPED IN WITH ALL THE ATTENDANT COSTS AND DELAYS, THE SUPERVISOR FINALLY TOLD THE OPERATOR TO STOP HIS ACTIVITIES.

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11. DICK SAID HE COULD UNDERSTAND A LACK OF ORGANIZATION AND ABILITY BECAUSE THE JOB INVOLVED HEAVY CONSTRUCTION EQUIPMENT AND MATERIALS ALONG WITH FAIRLY SOPHISTICATED EQUIPMENT NECESSARY TO HANDLE AND STORE LIQUID AMMONIA AND SUPERPHOSPHORIC ACID. HOWEVER, HE COULD NOT UNDERSTAND THE HIGH RATE OF ABSENTEEISM AND DRUNKENNESS. HE INDICATED THAT THE SOVIETS WERE CONTINUALLY BREAKING IN NEW PERSONNEL TO COVER THE ABSENCES AND TRANSFERS OF OTHERS. THE SITUATION HAD REACHED THE POINT WHERE HE WAS PLANNING TO TAKE A BLACK SEA CRUISE THE FIRST TWO WEEKS IN MAY, BECAUSE OF TWO SOVIET HOLIDAYS DURING THIS PERIOD. ALTHOUGH THE HOLIDAYS INVOLVE ONLY TWO WORKDAYS, A WEEK APART, HIS EXPERIENCE HAD BEEN THAT THE WORKERS WOULD START LEAVING SEVERAL DAYS BEFORE THE FIRST AND WOULD RETURN SEVERAL DAYS AFTER THE LAST, SO HE HAD TIME TO TAKE TWO WEEKS LEAVE WITHOUT

MISSING ANYTHING.

12. THE AMERICAN CREW FOUND THE ONLY EFFECTIVE METHOD OF CONTROLLING THE QUALITY OF THE CONSTRUCTION WAS TO TELL THE SOVIET SUPERVISORS AND WORKERS WHEN WORK DID NOT MEET STANDARDS THAT THE WORK WOULD HAVE TO BE REDONE OR THE TWO YEAR OCCIDENTAL WARRANTY ON THE PROJECT AFTER ACCEPTANCE WOULD BE VOID. NORMALLY THIS TACTIC WOULD BE USED AS A LAST RESORT AFTER THE SOVIETS HAD FAILED TO RESPOND TO OTHER SUGGESTIONS. THE SOVIETS HAVE YET TO PROVIDE THE MANPOWER FOR MAINTENANCE CREWS WHICH OCCIDENTAL HAS CONTRACTED TO TRAIN, ALTHOUGH THE MAINTENANCE TRAINING PROGRAM WAS TO HAVE BEGUN AT THE SAME TIME AS CONSTRUCTION. DICK AND THE MEMBERS OF HIS TEAM FELT THE SOVIETS WOULD SPEND A SIGNIFICANT PORTION OF THEIR ORIGINAL INVESTMENT REPLACING EQUIPMENT BEFORE COMPLETION, AND AFTER ACCEPTANCE WOULD BE ABLE TO OPERATE THE FACILITY ONLY AT GREAT EXPENSE AND AT REDUCED EFFICIENCY.

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13. COMMENT. WHILE FRUSTRATION WITH THE LACK OF PROGRESS MAY TEND TO GIVE A NEGATIVE FLAVOR TO THE COMMENTS OF DICK AND MEMBERS OF HIS TEAM, IT WAS APPARENT FROM THEIR DISCUSSIONS AND A VISIT TO THE JOB SITE THAT THE PROJECT IS CONSIDERABLY BEHIND SCHEDULE. THE MORALE OF THE AMERICANS AND THE WIVES PRESENT APPEARED GOOD. THE JOB FRUSTRATIONS AND PROLONGED HOTEL LIVING SEEMED TO BE OFFSET TO A GREAT DEGREE BY LIVING IN A RELATIVELY PLEASANT CITY WITH A MILD CLIMATE, HAVING COMFORTABLE IF NOT SPACIOUS HOTEL ROOMS, AND BEING ABLE TO OBTAIN WESTERN FOOD AND GOODS THROUGH EXCELLENT PORT FACILITIES. THE OCCIDENTAL LEAVE POLICY SEEMED TO BE GENEROUS ENOUGH TO ALLOW THE TEAM MEMBERS ADEQUATE OPPORTUNITIES TO BREAK THE TOUR WITH TRIPS TO EUROPE AND THE UNITED STATES. GENERALLY, THEY CONSIDERED THEY WERE BEING PAID WELL ENOUGH TO TOLERATE THE DELAYS AND REMAIN UNTIL THE PROJECT IS FINISHED.

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